

Investor Day 2025 Chemicals Business Strategy Q&A

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Q1

Regarding portfolio enhancement on slide 9, the 210 billion yen asset sales, what were the level of ROIC for the assets you sold Also, regarding the assets currently being invested in as part of the reconfiguration, I assume many have not yet contributed to earnings, but what is your future outlook for their ROIC?

From the outside, it is difficult to see if the portfolio reconfiguration is truly leading to ROIC improvement, so please tell us the difference in ROIC between the assets sold and the assets to be acquired in the future.

Furutani

We do not disclose ROIC on an individual company basis, but the ROIC of sold assets varies significantly depending on when we invested or when the business started. Therefore, it is not simply that we invested in companies shown on the right side of the slide because the ROIC of the sold companies on the left side were uniformly low. The companies we are currently investing in include those where the contribution to earnings will come later, such as Blue Point.

It is difficult to simply explain the reason why the ROIC of the entire Chemicals segment rose from 3.4 percent to 5.7 percent in terms of asset divestitures and investments for growth. However, as a result of investing in assets where we could increase added value, selling assets where ROIC improvement had peaked, and investing in assets that could grow in the future, we believe we have been able to improve ROIC to 5.7 percent for FY March 2022 onwards, compared to 3.4 percent between FY March 2018 and FY March 2021. Going forward, we want to further improve the ROIC of the Chemicals segment by strengthening businesses that are already generating earnings and by bringing businesses where we made investments for growth to fruition.

Q2

I understand that for Chemicals, you have expanded from trading to investment. I would like to ask about the trading business, which currently accounts for about 30% of profit. Amidst rising geopolitical risks, it seems that the trading function of trading houses is being revisited, and that you are receiving more and more inquiries from customers. Please tell us if there are any specific examples where the need for your trading functions and earnings generating opportunities are actually increasing. Also, do you think the

profit from the trading business, will increase further in the future? If it increases, I think this will lead to an increase in ROIC, so tell us your thoughts on that point as well.

Furutani

As you pointed out, due to geopolitical issues and the uneven distribution of raw materials, trade flows are suddenly disrupted, or situations occur where supply is stopped due to regulations. In such an environment, the trading function possessed by trading houses is being revisited, and needs are indeed increasing. However, we do not believe this is temporary due to the current situation. For example, we own tank terminals in various parts of the world and do business with many customers. Even if supply stops in a certain region, it is possible to respond flexibly, such as by utilizing tank terminals in other regions to adjust the timing. Please understand that actual transaction volume is increasing because we have this responsiveness.

The background to the increasing trading volume of products and commodities we handle is that we are flexibly exercising our functions in response to supply chain changes and reconstructing the trading. As a result, a cycle has been created where orders from customers come to us, and we are also building up trading assets so that we can reliably capture this demand.

As you mentioned, trading currently accounts for about 30% on a profit basis, and we will continue to strengthen it as a business foundation. On the other hand, we are not thinking of separating investment and trading and growing only trading. As I explained earlier, we mean to connect logistics contracts related to supply and purchase with trading functions such as production businesses and tank terminals, and expand by comprehensively combining these. We believe that by combining trading and investment to leverage functions, rather than growing only trading, business for the entire Chemicals segment will increase as a result.

Q3

For MTMP 2026, the profit target is 100 billion yen, and this fiscal year's profit forecast is 80 billion yen, so I think you are envisioning significantly growing profit in the future.

Regarding the Basic Materials, Performance Materials, and Nutrition & Agriculture business units listed on Slide 3, please tell us which business unit you are currently particularly focusing on investing. Also, when viewed over a time frame of the next 3 to 5 years, please tell us which areas you think will grow significantly. In addition, I would appreciate it if you could provide a little more supplementary information about the businesses that you gave as examples in today's explanation.

Furutani

Among the areas developed by the three business units, there are differences in the asset scale of each business unit. However, regarding future investment, we are

considering growth areas to be low-carbon chemical products including ammonia, forest resource assets held by Performance Materials, and its derivatives such as biochemicals and biorefineries, which will lead to basic chemicals. For example, in our collaboration with Celanese, we are working on functional food ingredients, and this also utilizes materials derived from basic raw materials within their complex.

As a company, we are investing in areas where future growth is expected, such as low-carbon areas, nature-derived green areas utilizing forest resources, and areas leading to nutrition within derivatives which are downstream of chemicals. These are fields we will invest in as future growth areas, and rather than investing with a bias toward a specific business unit, we believe there is growth potential in the areas between businesses such as upstream, midstream, agriculture, and nutrition within the entire Chemicals segment. Therefore, we want to invest flexibly in growth areas without being bound by frameworks and generate earnings.

Q4

You mentioned investing overall without being bound by frameworks, but looking at the historical investment background of your Chemicals segment, I recognize there was a period when investment was stagnant for a time. Since the COVID-19 pandemic, the external environment has turned positive, and I think the earnings base has been significantly strengthened, but I also feel that we are entering an era where profit cannot be accumulated without new investments. Is the outlook that the investment amount in the Chemicals segment will increase in the future?

Furuya

We believe that firmly proceeding with investments for growth and aiming for earnings generation while increasing the depth of each business is a necessary approach. As the Chemicals segment, our policy is to pursue investment possibilities more than ever before in order to raise earnings. Among them, we want to firmly invest in high-quality projects such as the low-carbon chemicals I explained earlier, as well as green-related, bio-related, and nutrition, that are close to downstream in specialty areas.